

**Mihaly • McPherson • Signorelli LLC**

*Business and Financial Advisors*

1414 Key Highway • Suite C • Baltimore, Maryland 21230  
410-528-1986 • 410-528-1980 fax

October 11, 2002

Lawrence W. Signorelli  
Direct: 410 637-8454

**Re: Oles Envelope, LLC v. GTD Company, Inc., et al.  
Civil Action No. WMN 02-2017**

On August 30, 2002, we were engaged by Whiteford, Taylor and Preston, LLP to quantify the damages incurred by their client Oles Envelope, LLC ("Oles LLC") in connection with Oles LLC's acquisition of RO Envelope Company, Inc ("RO"). Specifically, we calculated the loss of equity value resulting from the activities of its two former principals, Messrs. Oechsle and Robinson, and the ultimate closure of RO.

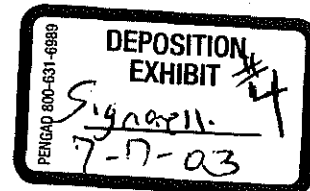
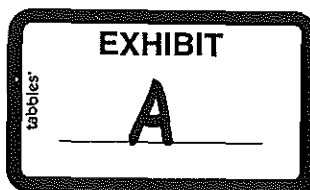
Our analyses and calculations indicate an equity value for RO of approximately \$2.1 million to Oles LLC at the date of the acquisition. Additional equity value accrued to Oles Envelope Corporation (Oles LLC's parent corporation) as a result of the acquisition. However, we have not included the determination of that value or any other losses incurred by Oles Envelope Corporation as part of this analysis at this time.

The valuation analysis specifically identified and separated the elements of value expected to accrue to Oles LLC as a result of the acquisition. The elements of value are summarized below. Detailed calculations are included on Exhibit A.

**Fair Market Value of RO Envelope**

The analysis first quantified the fair market value of RO. Fair market value is defined as the estimated amount at which property (a business) might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion to buy or sell, and each having reasonable knowledge of all relevant facts. This is the value that a non-specific investor would be willing to pay to acquire the equity of RO Envelope. The valuation is determined by capitalizing a normalized free cash flow level into present value at a rate of return that reflects the return requirements of the market, the risks inherent in the specific investment and the expected long-term growth of the free cash flow.

RO was an established, relatively stable operation. Accordingly, we used the average of the three years prior to the acquisition to establish the base cash flows. The average cash flows were adjusted to eliminate one half of the owners' compensation to better reflect the expected operations of the business after a transfer of equity ownership. The earnings underlying the cash flows were also adjusted by an estimated 42% combined corporate tax rate to match the earnings base with the capitalization rate. Capitalizing the cash flows at an appropriate 20% required rate of return results in a value of approximately \$410,000.



**Investor Specific Valuation Components**

The analysis also identified and quantified the investor value specific to Oles LLC. Investor value is defined as the value of cost savings and revenue enhancing opportunities that exist for a strategic investor in a company. We have established the value for the following Oles LLC-specific value-creating opportunities:

**Elimination of Backroom and Other Redundancies** Oles LLC consolidated certain administrative functions at Oles Envelope Corporation and eliminated a RO satellite facility resulting in expected annual cost savings of \$60,000 and \$43,000 respectively from existing (base) RO operations. Otherwise, we assumed a continuation of the historical operating performance of the business (no major changes in revenue levels, etc.).

Tax affecting at 42% and then capitalizing these cost savings at an appropriate 20% required rate of return results in a value of approximately \$300,000.

**Opportunities to Increase Revenue** A primary driver of Oles LLC's decision to acquire RO was the opportunity to significantly increase RO's revenues and earnings. The revenue enhancement benefits were to be derived from expanding RO's product line to include the sale of envelopes as well as existing jet printing services and allowing RO's senior executives (Messrs. Oechsle and Robinson) to market these expanded products and services to their existing and identified prospective customers. A forecast prepared on September 23, 1999 (seven days before the acquisition) included annual revenue growth of twenty percent for the following four years. A customer list provided to Oles LLC by RO as part of the closing documents contained over four hundred contacts of which approximately one hundred were also included in accounts receivable as of the acquisition date.

We calculated the value of the increased revenue forecast by discounting the projected cash flows after adjustments to reflect the previous value components and income taxes back to present value. We used a discount rate of 30% to reflect the additional risk inherent in revenue growth versus the established operations and cost savings from eliminating redundancies. This calculation results in an indicated value of approximately \$1,352,000.

In summary, our analyses and calculations indicate an equity value for RO of approximately \$2.1 million to Oles LLC at the date of the acquisition. This value was lost when the RO was closed. Again, this analysis does not include the equity value that accrued to and was lost by Oles Envelope Corporation, nor does it include any direct or indirect costs incurred in the attempt to protect the acquisition investment.

Mihaly • McPherson • Signorelli LLC

*Business and Financial Advisors*

Page 3

Mihaly • McPherson • Signorelli, LLC partners are being compensated at our standard rate of \$200 per hour. The Firm's compensation is not dependent on the opinions or conclusions developed, any testimony provided or the outcome of any litigation.

We reviewed the following documents as part of our analysis and calculations.

- Asset Purchase Agreement Binder (provided by WT&P)
- RO Purchase Analysis Prepared September 23, 1999
- RO Purchase Analysis Prepared April 29, 1999
- RO Tax Returns (1992 through 1998)
- RO Reviewed Financial Statements (1994 through 1997)
- RO Internally Prepared Financial Statements (1998 through August 1999)
- RO Income Statement Summary 9/2000, 9/2001 and 7/2002
- Oles Income Statement Summary (9/1997 – 9/2001, 7/2002)
- Oles 9/2000 Budget Summary

My curriculum vitae is included as Exhibit B. I have served as an expert witness for Michele Trading Corporation in Michele Trading Corporation v. Rony Natanzon; Civil Action No. MJG-02-CV-1868 filed in the U.S. District Court for the State of Maryland. I was deposed in this litigation. The case settled in Michele's favor on July 15, 2002. Except for the above litigation, my curriculum vitae is current.

Mihaly • McPherson • Signorelli, LLC



Lawrence W. Signorelli, CPA  
Principal

## Exhibit A

Confidential Attorney Work Product

Oles Envelope LLC  
 RO Envelope Acquisition  
 Damages Calculation - RO Valuation Diminution

## Summary

## Fair Market Value

Valuation of RO Envelop before any investor specific considerations

Capitalization of Sustainable Cash Flow available to Equity Holders	\$410,000
---	-----------

## Strategic (Investor) Value

Value of benefits accruing to a specific investor (Oles Envelope)

Elimination of Backroom Redundancies	\$300,000
--------------------------------------	-----------

Expected Revenue Increases	\$1,352,000
----------------------------	-------------

<u>\$2,062,000</u>
--------------------

## Fair Market Value

Valuation of RO Envelop before any investor specific considerations

Capitalization of Sustainable Cash Flow available to Equity Holders

Average EBTDA - 1997 through 1999

\$11,000

Plus one half of Owners' Compensation

130,000

Pre-Tax Sustainable Cash Flow available

To Equity Holders

141,000

Income Tax

42.0%

(59,000)

<u>\$82,000</u>
-----------------

Appropriate Equity Capitalization Rate

20.0%

Indicated Fair Market Value

\$410,000
-----------

## Strategic (Investor) Value

Value of benefits accruing to a specific investor (Oles Envelope)

## 1. Elimination of Backroom Redundancies

Estimated cost savings from consolidating backrooms

\$60,000

Estimated Occupancy cost reductions

43,000

<u>\$103,000</u>
------------------

Tax effected

<u>\$60,000</u>
-----------------

Appropriate Equity Capitalization Rate

20.0%

Indicated Fair Market Value

\$300,000
-----------

## 2. Expected Revenue Increases

HTR and DDO freed to mine their list of 400 plus customers

	2000	2001	2002	2003	Terminal Value
Revenue Forecast at Acquisition	\$5,400,000	\$6,480,000	\$7,780,000	\$9,331,000	
Pretax EBTDA Forecast at Acquisition	\$356,966	\$490,228	\$801,748	\$1,033,081	
Less Sustainable EBTDA before Owner's Comp Adjustment	(11,000)	(11,000)	(11,000)	(11,000)	
Less Backroom savings	(103,000)	(103,000)	(103,000)	(103,000)	
	242,966	376,228	687,748	919,081	
Income Tax	102,046	158,016	288,854	386,014	
Cash flow to Equity Holders	\$140,920	\$218,212	\$398,894	\$533,067	\$2,132,266
Present Value Factor	30.0%				
	76.92%	59.17%	45.52%	35.01%	35.01%
	\$1,352,000	\$108,400	\$129,119	\$181,563	\$186,641
					\$746,566

Representative Valuation Services Engagements at Ernst & Young:

- Directed the valuation due diligence of a manufacturer and distributor of biological reagents used in medical research and of a full-service, international contract research organization. The due diligence was used in merger negotiations between the two Companies. We also provided deal structure, accounting and tax consulting to the parties of interest and will continue to serve the new entity as their independent accountants.
- Performed a business valuation of a provider of diverse professional services to the national health systems. The services provided include information technology, laboratory research and management, health and environmental sciences research and health communication and research. The original valuation was performed in support of the owners' evaluation of various compensation plans designed to attract and retain high caliber management and employees. We have completed two subsequent annual valuation updates.
- Performed valuations of intangible assets and intellectual property, including computer software, licenses, customer lists, and contracts to assist clients with purchase price allocation. These valuations have included a national credit card issuer, an international conglomerate, a national construction and engineering firm, a cellular communications consultant, an insurance broker and several financial institutions.
- Performed business valuations of several companies, including an international construction equipment manufacturer and distributor, an automobile leasing company, two construction companies, a snack food manufacturer, an intrastate trucking company, an utility supply distributor, an out-patient surgery center, a contract refuse hauler and an emergency warning device manufacturer. These engagements were completed in conjunction with attorneys for the companies as part of our litigation services. These cases have included working with attorneys to analyze potential economic consequences, giving depositions and court testimony, and helping to mediate mutually acceptable settlements.
- Performed business valuations of several companies, including a building supply manufacturer, a large retail tire dealer and auto service provider, a trucking company, a manufacturer of a special electronic component, an aerospace engineering and testing company, and a professional power system engineering firm. These valuations were performed for Employee Stock Option Plans as required by the Internal Revenue Code and/or to assist the owners with their evaluations of various estate planning options.

- Performed a business valuation of a supermarket to assist the Internal Revenue Service in connection with litigation in the United States Tax Court involving an estate tax dispute.
- Performed business valuations of several companies, including construction companies, a manufacturer of consumer product samples, a construction equipment manufacturer, a pharmaceutical testing lab, a regional real estate developer, and an office furniture wholesaler and lessor in conjunction with restructuring and reorganization services.
- Performed business valuations of a regional flourmill, an emergency warning device manufacturer and a specialized construction component manufacturer. These engagements were completed at the owner's request to assist them in determining a fair market price for their companies.
- Performed valuations of the underlying collateral supporting loans made by an insurance company to its non-insurance subsidiaries. The valuations were required to comply with state regulations.
- Supervised a merger and acquisition analysis for an investment holding company interested in acquiring an interest in a large entertainment complex. The analysis included a review of the target company's history and past financial results, an examination of the company's future plans and projections, and detailed financial analyses of both past and expected future results. Subsequently, Mr. Signorelli supervised a review of the Complex's accounting and administrative systems. The emphasis of the review was on recommending practical solutions to existing problems that could be quickly implemented in the existing operating environment.
- Supervised a merger and acquisition project for a U.K. company interested in acquiring two American companies. The analysis included the preparation of Long-Form Reports required by the London Stock Exchange as well as other merger and acquisition procedures.
- Designed and implemented a management analysis system for a billion dollar plus refiner and marketer of petroleum products. The system accurately models the value drivers of the corporation, including the interrelationships between divisions and sub-divisions. Systems uses include merger and acquisition analysis, internal growth plans analysis and the education of non-financial management.
- Served as the financial consultants to the developers of a world-class golf course and residential development in Central Maryland. The developers include the regions most prominent business leaders. This engagement included developing the cash flow projections; meeting with the developers, their attorneys, their construction consultants, and the potential lenders; and completing various schedules, reports and filings requested by the developers.



- Participated in a strategic assessment of a financially troubled international franchiser attempting to restructure over \$130 million in unsecured debt. The engagement included preparing a comparable selling price valuation of company-owned stores, a future revenue stream valuation of owned and leased store real estate and several asset-monitoring schedules requested by various departments of the client.
- Directed the strategic planning process of a \$60 million, marginally profitable, construction product manufacturer and contractor. The planning process resulted in the carefully evolved downsizing of the company into a significantly more profitable and flexible entity. Mr. Signorelli worked closely with senior management during the year and a half process including developing the plan for obtaining secured debt and vendor cooperation and approval. Ultimately, the Company was sold to an international competitor.
- Designed a cash flow forecasting system for senior management of a rapidly growing \$350 million manufacturer, distributor and international marketer of mobile work platforms. The model included detailed assumptions related to significant cash flow drivers. The Company is currently using the system to analyze past performance. Ultimately, management plans on using this system to serve as a basis for establishing actions consistent with their corporate goal of becoming a billion dollar entity and for monitoring and adjusting or refocusing the dynamic process of implementing those plans.